PRO PE INDUSTRY NEWS

Private-Equity Firms With Oil-and-Gas Focus Defend Sector as Investment Drops

Fossil fuels will still be necessary even as the world shifts to cleaner energy, these firms argue in marketing to investors

The U.S. should continue supplying a big portion of the oil and gas it needs, avoiding a production shift to countries with looser environmental standards, energy-focused private-equity firms say.

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By Luis Garcia
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Some private-equity firms that back oil-and-gas businesses are becoming increasingly vocal about the role the sector can play as the world shifts to cleaner energy—and they are using the current energy crisis to make their point.

Energy-focused firms including NGP Energy Capital Management, Pickering Energy Partners and Quantum Energy Partners have been sending articles, reports and presentations to investors highlighting the importance of oil and natural gas during the transition to renewables. The effort comes as investors continue putting less money into fossil fuels.

The private-equity firms argue that the renewable-energy sector cannot expand capacity quickly enough to attain net-zero emissions by 2050, a common goal shared by the U.S. government and various big companies. The world would do better, the private-equity firms say, if the U.S. continued supplying a big portion of the oil and natural gas it needs—avoiding a production shift to countries with looser environmental standards—while investing in systems that capture and store carbon dioxide to reduce emissions in the sector.

Relying too much on renewable energy sources has risks, the private-equity firms say, pointing to how natural-gas shortages and weak winds led to high energy prices in Europe last year, even before Russia's invasion of Ukraine this February. Natural-gas prices soared further after Moscow last month slashed gas flows to Europe, an effort to split the Western coalition that has united against the country since its Ukraine invasion, energy specialists say.

"We need to quit just focusing on replacing all hydrocarbons with wind and solar. We've got to ask ourselves, 'What's practical? What can we really do?'" said Wil VanLoh, chief executive of Houston-based Quantum. He added that the world has never experienced a complete energy transition before but instead added new sources of energy over time. "It's kind of make-believe to think that we can actually replace three forms of energy this time," Mr. VanLoh said, referring to coal, oil and natural gas.

Pension funds, endowments and other institutional investors are increasingly moving away from fossil-fuel-related assets, often under pressure from environmental activists and their own constituencies. Private-equity firms raised a total of $2.98 billion across seven oil-and-gas-focused funds in the U.S. in the first half of this year, 40% less than the total of $5 billion they collected across 12 such funds in the year-earlier period, according to research provider Preqin Ltd.

The private-equity firms striving to persuade investors not to abandon the oil-and-gas sector are certainly defending their economic interests as they seek backers for new funds. But their leaders say they are also reacting to what they consider misconceptions about a sector that, they say, is critical to providing the world with the low-cost energy it will need on its path to net-zero emissions.

Many investors agree that investing in energy assets beyond renewables is still necessary, consultants and investors said.

"I think that a lot of investors recognize that the energy transition is going to take a while," said Matt Garfunkle, a partner at London-based Pantheon Ventures, an investor in private-capital funds. Mr. Garfunkle added, however, that appetite for oil-and-gas funds remains muted as investors largely prefer to back businesses that are expanding their "green side." He pointed to Pantheon's recent investment in a fund that backed power company Calpine Corp., which operates many natural-gas-fired plants but also builds solar and wind projects.

Oil-and-gas-focused private-equity firms are also increasing their investments in clean-energy businesses as they try to win over investors, while pointing out their efforts to reduce carbon emissions across their portfolios. For example, NGP-backed oil-and-gas companies recorded a drop of 14% in direct emissions and 40% in methane intensity last year, Managing Partner Chris Carter wrote in a recent article that NGP sent to all its investors.

Other such firms, particularly Kimmeridge Energy Management, argue that the oil-and-gas sector itself must change if it wants to continue attracting capital. One important step would be to set its own net-zero goal, according to the New York firm. In a recent white paper, Kimmeridge called for the sector, among other actions, to electrify operations, reduce flaring and use carbon credits to achieve net-zero emissions by 2030.

"We don't have an oil-and-gas problem. We have a carbon-emissions problem," said Kimmeridge Managing Partner Ben Dell. "If we took the emissions out of the oil-and-gas industry, there's no reason why we shouldn't support it."

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